LEGISLATIVE SERVICES AGENCY OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6808 NOTE PREPARED: Jan 24, 2011

BILL NUMBER: HB 1008 BILL AMENDED:

SUBJECT: Tax Benefits.

FIRST AUTHOR: Rep. Torr

BILL STATUS: CR Adopted - 1st House

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL IMPACT: State

DEDICATED FEDERAL

Summary of Legislation: This bill increases the maximum amount of tax credits available under the Venture Capital Investment Tax Credit for the provision of qualified investment capital to a particular qualified Indiana business from \$500,000 to \$1,000,000 for calendar years after 2010. It requires investments eligible for the Venture Capital Investment Tax Credit to be made before January 1, 2015, instead of January 1, 2013. The bill also suspends, beginning July 1, 2011, and ending June 30, 2013, the application fee allowed in current law for applicants seeking certification for the Venture Capital Investment Tax Credit.

Effective Date: July 1, 2011.

Explanation of State Expenditures: Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes to the Venture Capital Investment (VCI) tax credit in this bill. The DOR's existing level of resources should be sufficient.

Indiana Economic Development Corporation (IEDC): This bill suspends the Venture Capital Investment Tax Credit application fee of \$200 for FY 2012 and FY 2013. On average, the amount collected annually from the application fee is about \$9,000. Because this fee is included in the IEDC's operating budget, they will experience a decrease in funding. Since CY 2003, the IEDC has collected \$68,800 in application fees.

In addition, suspending the application fee for FY 2012 and FY 2013 may increase applications for the VCI Tax Credit. If more applications are submitted, the IEDC could potentially incur additional administrative expenses.

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Explanation of State Revenues: <u>Summary</u> - This bill will likely decrease revenue to the state General Fund beginning in FY 2014 due to the extension of the VCI tax credit. The bill extends the tax credit by two years by changing the current expiration date from December 31, 2012, to December 31, 2014, allowing the Indiana Economic Development Corporation (IEDC) to award up to \$12.5 M annually in new tax credits for two additional years beginning in tax year 2013.

The bill also increases the maximum amount of tax credits available for one taxpayer from \$500,000 to \$1 M beginning in tax year 2011. Although this change should not directly impact state revenue because of the annual cap of \$12.5 M, it could affect the amount of tax credits claimed over the six-year period. If a taxpayer is able to use more of their tax credit amount for the first applicable tax year, then the timing of when credits are claimed could be impacted. Increasing the maximum tax credit amount will also affect how many taxpayers may receive tax credit awards. For example, 12 taxpayers could receive a maximum tax credit amount of \$1 M instead of 25 taxpayers receiving a maximum tax credit amount of \$500,000. This change would also benefit larger projects that are not currently eligible for the tax credit by increasing the maximum amount of venture capital investment eligible for the 20% tax credit from \$2.5 M to \$5 M.

State income tax return data for individuals indicates that about \$3.3 M in VCI tax credits was claimed by 490 individuals in tax year 2008. In 2007, about \$3.8 M was claimed by 430 individuals. No VCI tax credits were claimed by corporate taxpayers for tax years 2007 and 2008. The maximum tax credit claimed by individuals was about \$140,000 and \$160,000 for tax years 2007 and 2008, respectively.

<u>Background Information</u> - Current statute provides that the VCI tax credit is equal to 20% of annual qualified venture capital investment made by a taxpayer up to a maximum credit of \$500,000. The IEDC certifies businesses to receive creditable venture capital investment. The investment must be made between 2004 and 2012. Total new credits awarded may not exceed \$12.5 M annually (\$10 M in 2004). This limitation does not apply to credits that are carried forward. The credit is nonrefundable, but unused credits may be carried forward for up to five years. Unused credits may not be carried back. The credit may be applied to individual or corporate AGI Tax, Financial Institutions Tax, Insurance Premiums Tax, or Sales Tax liabilities. Revenue from the AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. Sales Tax revenue is deposited in the state General Fund (99.178%), the Public Mass Transportation Fund (0.670%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Since 2004, 314 businesses have been certified by the IEDC as qualified to receive venture capital investment for which the investors could claim VCI tax credits. As of November 4, 2010, a total of \$38 M in VCI tax credits have been awarded to investors by the IEDC. Each qualified business proposes an amount of venture capital that it will raise, and the IEDC allocates a credit amount to the business based on the proposed investment amount. Once an investor makes venture capital investment in a qualified business, credits allocated to that business are awarded to the investor. The credits can, at that point, be claimed by the investor against state tax liability. While the IEDC has annually allocated an amount of credits to qualified businesses in excess of the annual credit limit, the total credits that could be awarded to and claimed by investors may not exceed the annual credit limit. The table below outlines the activity in the VCI credit program.

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	Qualified Businesses	Credits Allocated	Credits Awarded	Credits Claimed (Individual & Corporate Income Tax Data)*
2003	6	\$2.3 M	\$0.9 M	Data Not Available
2004	35	\$15.2 M	\$7.8 M	Data Not Available
2005	39	\$12.8 M	\$6.2 M	\$2.7 M **
2006	53	\$15.3 M	\$7.2 M	\$0.7 M
2007	60	\$17.9 M	\$6.6 M	\$3.8 M
2008	51	\$14.7 M	\$5.6 M	\$3.3 M
2009	47	\$12.3 M	\$2.5 M	Data Not Available
2010	29	\$7.5 M	\$2.1 M	Data Not Available

^{*}These tax credit amounts include tax credits that were carried forward.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR; IEDC.

Local Agencies Affected:

Information Sources: OFMA Income Tax Database; Eric Shields, IEDC, 317-234-3997.

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^{**}This figure represents Venture Capital Investment Tax Credits claimed on individual income tax returns. Data for corporate income tax returns for 2005 was not available.